

**MINUTES**

**MONTANA SENATE  
57th LEGISLATURE - SPECIAL SESSION  
COMMITTEE ON FINANCE**

**Call to Order:** By **CHAIR BOB KEENAN**, on August 6, 2002 at 10:00 A.M., in Room 172 Capitol.

**ROLL CALL**

**Members Present:**

Sen. Bob Keenan, Chair (R)  
Sen. Tom A. Beck (R)  
Sen. Chris Christiaens (D)  
Sen. John Cobb (R)  
Sen. William Crismore (R)  
Sen. Greg Jergeson (D)  
Sen. Royal Johnson (R)  
Sen. Bea McCarthy (D)  
Sen. Arnie Mohl (R)  
Sen. Linda Nelson (D)  
Sen. Debbie Shea (D)  
Sen. Corey Stapleton (R)  
Sen. Bill Tash (R)  
Sen. Jon Tester (D)  
Sen. Mignon Waterman (D)  
Sen. Jack Wells, Vice Chair (R)  
(R)  
Sen. Tom Zook (R)

**Members Excused:** None.

**Members Absent:** Sen. Ken Miller (R)

**Staff Present:** Prudence Gildroy, Committee Secretary  
Jon Moe, Legislative Branch

**Please Note:** These are summary minutes. Testimony and discussion are paraphrased and condensed.

**Committee Business Summary:**

Hearing(s) & Date(s) Posted: SB 14, 8/5/2002; SB 15,  
8/5/2002

Executive Action: None

**{Tape : 1; Side : A}**

HEARING ON SB 14

Sponsor: SEN. EMILY STONINGTON, SD 15, Bozeman

Proponents: Dick Krofts, Commissioner of Higher Education  
Lloyd Chessman, Vice-President in charge of  
Economic Development at the University of MT  
John Youngberg, representing the MT Stockgrowers  
George Dennison, University of Montana  
Eric Furke, MEA-MFT  
SEN. DON HARGROVE, SD 16, Gallatin County  
Richard Owen, Montana Graingrower's Association

Opponents: None

Opening Statement by Sponsor:

SEN. EMILY STONINGTON, SD 15, Bozeman, opened on SB 14 recalling that when the LFC met in early June to discuss the first round of cuts that the governor was proposing, one of those proposals was to cut the research appropriation of \$4.85 million a year to the Board of Research and Commercialization. She recalled a long fought battle over the years over the commitment to research and applied research going into commercialization and actual products that are applicable to the Montana economy. The Board of Research and Commercialization has been in effect for several years and the appropriation is \$4.85 million out of the general fund. It is actually an appropriation out of interest amount in the coal tax trust fund that goes toward this research in the state. The June proposal was to cut that amount by 10% (\$485,000) but the committee agreed there was a need to address the issue with a bill in the legislative session in January. When the special session was called it was proposed that there also be a transfer from the Department of Transportation. That became HB 5. HB 5 expanded the cut to 35% the first year and 25% the second year, which was significantly deeper than \$485,000. She indicated that a cut of 10% was fair and deeper than 10% was not right. She said there were not many economic drivers in the state and that research is one of them. It is a \$70 million piece of the Bozeman economy. Statewide it is in the \$100 million range. She maintained the committee could advance the bill and have it coordinate with HB 5, hold the bill and table it and look at amending HB 5 or decide to go with the cuts in HB 5. She indicated she wanted to bring the issue before the committee because otherwise it would get buried in the discussion.

Proponents' Testimony:

**Dick Krofts, Commissioner of Higher Education**, explained how putting money into research paid off. He noted that in the late 1980s the state, including the legislature, had made two significant public policy decisions to help research funding at the universities. The first was in 1989 and permitted the universities to retain indirect costs and invest them back into their growing research program. The second has been support over the years in various mechanisms for matching federal research grants for the university system. This began with a significant loan through the Science and Technology Alliance. In 1999, the state put \$2 million into the program and in the special session in May of 2000 the \$4.85 million that **Sen. Stonington** referred to was added. **Commissioner Krofts** distributed a handout and explained expenditures for research within the university system. **EXHIBIT(fcs02a01)** In was their view that the record showed the public policy decisions had paid off enormously for the state of Montana. He conveyed the need to keep the federal dollars flowing with a certain and stable source of funding that was provided in the May of 2000 special session and indicated a concern about the possible reaction of the federal agencies to the proposed cuts.

**Lloyd Chessman, Vice-President in charge of Economic Development at the University of Montana** urged support for the bill as a key to economic development. He indicated that over \$100 million per year is expended in the state from out of state funds and that more than 50% of funds provided jobs and salaries. He maintained that the research being conducted leads to intellectual property inventions that the universities patent and with which small businesses start. The U of M will open a small business incubator in the fall that is fully occupied and driven primarily by some of the research and some of the intellectual property coming out of the University. **Mr. Chessman** described the National Institute of Health funding a \$7.5 million project at the U of M and the addition of 8 faculty with research grants for \$8 million.

**John Youngberg, representing the Montana Stockgrowers** stated he works for the Farm Bureau and was also on the Board of Research and Commercialization, the board that gives out the money for the grants. He contended they were one of the driving engines in the state's economy. He cited a project in Missoula where a private company working with the university built a CO2 tester which started from a research project the board funded. The Board awarded 38 grants for a total of \$10.5 million. Through federal matches and private industry they were able to add \$15.8 million in addition. He claimed that 110 new jobs were created as a direct result of the research. There have \$26 million additional dollars leveraged besides the match. Agriculture projects comprise 39% of research projects. A project at Northern AG

Research Center at Havre would create a model for crop determination. A project in Corvallis would deal with essential oils and at Kalispell there is a project to develop synthetic seeds. There are projects in Bozeman dealing with enhanced fungal wheat disease and the use of biofilm in mining and coalbed methane development. The return on the investment is greater than what was cut. He felt the program was vital to the state.

**George Dennison, University of Montana**, rose in support of the bill. He commented that the money coming into the state benefits both the university system and the state. He urged the committee to continue the public policy that works and look carefully at reducing \$1.2 million this year.

**Eric Furke, MEA-MFT**, indicated the union represents not only K-12 employees but also represents teaching and research faculty within the university system. He voiced support for SB 14 and felt it addressed the problem of a struggling economy and would keep the economy moving forward. He added that HB 5 would extend the \$1.2 million cut into the next biennium as well. He understood why that was done in HB 5 but felt the special session was designated to deal with the problems in this fiscal year. He wished to keep **Sen. Stonington's** bill alive and to defer action on the \$1.2 million cut in the research and commercialization fund until the next session.

**SEN. DON HARGROVE, SD 16, Gallatin County**, noted his involvement in the programs. He explained that the legislature had worked for over fifteen years to provide a stable source of funding because of concerns of the National Science Foundation in Washington to do so. In 1999, legislation was passed to take the funds from income coming into the coal tax fund. The NSF used Montana as a model for other states. However, the funding was not held to be constitutional and a special session was called strictly for that purpose. He asserted that economists claim that money brought in from outside a local economy will be multiplied 5 to 6 times, affirming the importance of a stable source of funding. He felt the credibility and reputation of the legislature was at stake and that although 10% was reasonable, 35% was not. He urged the committee to keep the bill alive, pass it and bring it together with HB 5.

**Richard Owen, Montana Graingrower's Association**, rose in support of the bill and declared that research and commercialization were the key to the future of agriculture and that the groups that were involved in Vision 2005 in the special session of 2000 still felt very strongly about the funding that was created for this project and Growth Through Agriculture as well. The research

projects made a difference and the agriculture community was united in support of continuing full funding.

**Opponents' Testimony:**

None.

**Questions from Committee Members and Responses:**

**SEN. MIGNON WATERMAN**, asked **Mr. Youngberg** if he served on the grant committee and if there were more applications for grants than there were funds available?

**Mr. Youngberg** described that there were 17 grants funded in the first year out of a huge stack of applications.

**SEN. WATERMAN** noted the testimony regarding the success of the programs in generating jobs and income for valuable research and wondered why the program should be cut at all if it is a revenue producer.

**Mr. Youngberg** noted that the departments were asked to come up with money to put on the table and this was money that had not yet been spent. He felt it was probably thought the cut would not effect any of the basic services such as education and social services.

**SEN. TOM ZOOK** asked about synthetic seeds and the implications for seed growers.

**Mr. Youngberg** explained that the development of a seed base was still required. Tissue for seed potatoes would be encapsulated. The seeds would be used with high production crops.

**{Tape : 1; Side : B}**

**SEN. ZOOK** wondered about the research. He noted that Montana seed potatoes were highly valued as opposed to Idaho and expressed some concern.

**Mr. Youngberg** explained that potato producers had been involved in some of the research. Seed potatoes would still be grown and the synthetic seeds would still be guaranteed disease free.

**SEN. DEBBIE SHEA** was intrigued by the program being a catalyst for business and inquired whether the business were staying here and how many employed people were employed.

**Mr. Youngberg** offered to get the numbers and gave an example of a company in Belgrade with a product that kills pathogens in sewage and a project in Bozeman for a chip that would identify every aircraft in the air, contributing to "homeland security".

**SEN. ROYAL JOHNSON** asked about item 3 in the fiscal note which claimed no additional fiscal impact from the bill in FY 2003.

**SEN. STONINGTON** recalled that the Legislative Finance Committee agreed that the reduction should take place but that the governor did not have the authority without statutory action. The committee recommended asking the Department of Commerce not to disperse the funds until the general session met in January and that there would be a bill to authorize the transfer from the Board of Research and Commercialization into the general fund to reflect the reduction.

**SEN. JOHNSON** asked if that meant they had the same amount of money until January 1st.

**SEN. STONINGTON** felt the fiscal note was inaccurate. SB 14 said that beginning in FY 2003 there would be a 10% reduction (\$485,000). In HB 5 there would be a \$485,000 reduction in FY 2003 plus the \$1.2 million reduction in 2004 and 2005 for a total of \$1.685 million in FY 2003. SB 14 is retroactive to the beginning of FY 2003 (July of 2002). FY 2003 would take away \$485,000 and ongoing years and then the entire program would sunset in 2005. It would take some positive action in the next session to see the program continue.

**SEN. JOHNSON** asked if the attempt was to reinstate \$485,000.

**SEN. STONINGTON** replied that the governor had not taken anything yet because she did not have statutory authority and that the fiscal note was wrong. All the governor's office did was delay disbursement. SB 14 would take 10% each year until the bill sunsets.

**SEN. JOHNSON** asked if the bill did not affect the situation in the current year and if the governor's office could still hold the money until January 1.

**SEN. STONINGTON** explained that they had the right to hold the disbursement and not allow the grants to be made and the money could be taken in the general session. She said HB 5 had to pass because it also includes a transfer from the Department of Transportation but that HB 5 triples the reduction in 2003.

**SEN. JON TESTER** asked for a clarification on research dollars spent. (Look at Ex. 1)

**Mr. Dennison** explained the chart was the expenditure from research grants to those institutions. There could be small pieces of those that would include some state dollars but that would be over and above the expenditures.

**SEN. TESTER** asked how much state moneys were allocated in 1990.

**Mr. Dennison** did not recall exactly how much that was and indicated those moneys were loans in those days and the amount was probably not more than \$2 million.

**SEN. TESTER** asked if \$4.85 was received in 2001 and **Mr. Dennison** confirmed that.

**Closing by Sponsor:**

**SEN. STONINGTON** closed on the bill and compared the reduction in SB 14 to those in HB 5. She conceded that perhaps the state could not afford to support research at the full level. HB 5 would cut 35% in 2003, 25% in 2004 and 25% in 2005. She affirmed that no agency is going beyond 10% and that the program is leveraging dollars, producing jobs and was the kind of economic driver that was needed in the state.

**HEARING ON SB 15**

**Sponsor:** John Cobb, SD 25, Augusta

**Proponents:** Ken Nortvedt, Bozeman

**Opponents:** Aidan Myhre, Governor's Taskforce for Endowments and Philanthropy  
Ken Woosley, Director of University Relations at MSU, Billings  
George Dennison, U of M  
Janie McCall, Deaconess Billings Clinic

**Opening Statement by Sponsor:**

**John Cobb, SD 25, Augusta,** stated that the original bill was passed several sessions ago that allowed a tax credit, changed in the last session to 40% of the gift to a qualified endowment such as a foundation or non-profit. The maximum credit was \$10,000. The bill would reduce the credit again. There would be an amendment on the bill to strike the language making the bill

retroactive. If there was no tax credit, the money would go to the general fund. He felt taxpayers would not stand for \$2.5 million in cuts in education next session. He acknowledged the value of endowments but stressed that money was needed to balance the general fund.

#### **Proponents' Testimony:**

**Ken Nortvedt, Bozeman**, supported the bill and contended that tax credits if narrowly defined and going to relatively few people were not part of tax policy. They were a round-about, secret way of spending state monies and should be under the control of the appropriations committees. He felt tax credits were a subsidy to a relatively few people and was state spending rather than having anything to do with taxes. He wanted to see the cut be greater. He felt most of the tax credits in the tax codes should be abolished and insisted that if there were deserving people that the tax credits were aimed at helping they should be helped through the normal appropriations process. He urged voting for the bill and taking a look at all the other tax credits particularly the wind tax credit. He couldn't understand why the state would reimburse anybody for 35% of their cost of doing business (about \$1 million in this biennium). He urged generalizing **SEN. COBB's** bill because narrowly defined tax credits were another form of spending.

#### **Opponents' Testimony:**

**Aidan Myhre, Governor's Taskforce for Endowments and Philanthropy**, stated she also served as local chair of her local hospital foundation. She contended that dollars raised go to help those in need. Where government cuts were being made, non-profits were picking up the burden and that the endowment tax credit helps with that. She felt if endowments can be built it will help with funding crises in the future. She felt that there should be more time to see the impact of the previous cuts and noted that endowments keep money in Montana, planned gifts generate as much as \$12 million additional taxable income.

**Ken Woosley, Director of University Relations at MSU, Billings**, opposed the measure and urged the committee to vote no because it was a breach of trust. To make the reductions retroactive would be punitive and unjust to those who already made gifts in 2002. On his campus, this was largely individuals, not corporations. He felt the tax credit has been proven effective as an inducement for private taxpayers to contribute to institutions and agencies that are suffering the most from state funding cuts. He remarked that Montana was 49th in the nation in terms of philanthropic contributions. In many cases the tax credit had been used to

convert appreciated securities to set up gift annuities and therefore has contributed substantially to the state's economy as annuity payments are subject to tax. Over \$2 million had been pledged to his campus to date this year assuming the legislature would carry through on its promise. He urged a no vote.

**George Dennison, U of M**, argued that the most important issue was consistency in state policy. The benefits from the endowments go to a wide spectrum of people across the state and non-profits are a large piece of Montana's economy. Staying the course is the most important issue. People make their plans on the basis of existing state policy. If the policy is subject to change, he suspected the benefits to the state at large would not occur. He urged resisting the legislation at this time.

**Janie McCall, Deaconess Billings Clinic**, stated that the clinic is the second largest employer in Yellowstone County next to School District 2. The clinic provided \$4.5 million of charity care in 2001 and had an un-reimbursed cost of Medicare and Medicaid of \$11.8 million. She opposed the bill but applauded **Sen. Cobb** for his efforts to find measures to address the deficit. She felt the tax endowment needs time to work. {Tape : 2; Side : A}

**Questions from Committee Members and Responses:**

**SEN. JOHNSON** asked **Mr. Nordvedt** about tax credits for wind--if the facility would have to be built and that once built if it would continue to be a taxpaying entity.

**Mr. Nordvedt** agreed that was true of anything built that stays in activity but all of their potential income tax was given back to them in the form of tax credits for the fifteen year carry forward provision. In the case of wind energy the specific language also says they are guaranteed a fair rate of return on the sale of that part of the energy they sell to the state. They are essentially guaranteed a product but are getting 35% of their cost reimbursed to them from Montana taxpayers. Excessive tax credits warp sound economic development by hiding the costs through other subsidies from taxpayers.

**SEN. JOHNSON** somewhat agreed regarding excessive tax credits but felt that if there was to be economic development, you had to help make that happen. He thought without a project or place for people to be employed there would be no growing economy of any sort. **Mr. Nordvedt** agreed.

**CHAIRMAN BOB KEENAN** asked **Ms. McCall** to connect the dots between the bill and the charitable care at Deaconess.

**Ms. McCall** made the point that her organization, along with many other non-profits in the state of Montana, provides a great deal of charity care and the monies that are gathered for endowments and foundations are provided to give other services. Other hospitals, health care providers and mental health care providers are providing care without receiving the full cost of care or services.

**CHAIRMAN KEENAN** asked if the numbers used were based on the cost of giving those services or billable charges.

**Ms. McCall** indicated they were based on the cost of doing services.

**CHAIRMAN KEENAN** stated he had a document on the Medicaid ratio of cost of services versus the charges and the revenue.

**Closing by Sponsor:**

**SEN. COBB** said an amendment would make the bill not retroactive. He said staying the course and consistency meant spending more money than the state takes in. Although everyone wants something different in the state, politically we are one state and one people and we have to try to find a compromise. The legislature is the only body elected in this state that actually looks out for the benefit of everyone. He felt we were giving money away we don't have.

**ADJOURNMENT**

Adjournment: 11:20 A.M.

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SEN. BOB KEENAN, Chair

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PRUDENCE GILDROY, Secretary

BK/PG

**EXHIBIT(fcs02aad)**